Supreme Court, U.S.
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No. 02-197

IN THE

Supreme Court of the United States

MONSANTO COMPANY,

Petitioner,

v.

BAYER CROPSCIENCE, S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITIONER'S SUPPLEMENTAL BRIEF

SETH P. WAXMAN
WILMER, CUTLER
& PICKERING
2445 M Street, N.W.
Washington, D.C. 20037
(202) 663-6000

E. EDWARD BRUCE
Counsel of Record
ELIZABETH STOTLAND WEISWASSER
PAUL W. SCHMIDT
COVINGTON & BURLING
1201 Pennsylvania Ave., NW
Washington, DC 20004-2401
(202) 662-6000

Attorneys for Petitioner

JUNE 2003

7pp

TABLE OF AUTHORITIES

Page

CASES

Erie R. Co. v. Tompkins, 304 U.S. 64 (1938) 3

Heidelberg Harris, Inc. v. Loebach, 145 F.3d 1454 (Fed. Cir. 1998) 4

Richmond Screw Anchor v. United States, 275 U.S. 331 (1928) 4

Rhône-Poulenc Agro, S.A. v. DeKalb Genetics Corp., 272 F.3d 1335 (Fed. Cir. 2001), *vacated and remanded on other grounds*, 123 S. Ct. 1828 (2003) 5

Villa v. Rodriguez, 79 U.S. (12 Wall.) 323 (1870) 3

FEDERAL REGULATIONS

17 U.S.C. § 205 2

28 U.S.C. § 1498 4

35 U.S.C. § 261 ..... 2, 3

MISCELLANEOUS

Jay Dratler, Jr., LICENSING OF INTELLECTUAL PROPERTY § 8.02[1] (2002) 2, 3

PETITIONER'S SUPPLEMENTAL BRIEF

Much more in the amicus brief of the Solicitor General supports a grant of certiorari than the denial it ultimately recommends.

The Solicitor General agrees that the bona fide purchaser ("BFP") rule "promote[s] the flow of commerce by placing the burden of ascertaining and preventing fraudulent transactions on the one in the best position to prevent them." U.S. Br. 8. He agrees that it avoids "the waste that would be created," *id.*, if licensees like petitioner Monsanto had to assure the validity of every transaction in the chain of title and licensing. He agrees that "modern commercial law as embodied in the Uniform Commercial Code ["UCC"] does not confine the [BFP] rule to transactions involving the passage of title." *Id.* at 12. And he agrees that "the court of appeals' decision is not justified by reference to the primary interests served by the [BFP] rule . . . ." *Id.* at 14.

The Solicitor General's own description of the BFP rule highlights its profound practical importance for patent licensing. As this case illustrates, patent licensees often make very large capital investments to build businesses that depend on their licenses. They cannot take any chance that a critical license will disappear because an employee-inventor, or someone else back in the chain of title and licensing, might later claim fraud by *his* vendee or licensee. Accordingly, under the Federal Circuit's new rule, licensees would be forced either to insist on obtaining a complete assignment of rights or written concurrence from all persons in the chain, beginning with the individual inventor.

A leading patent licensing expert relied upon by the Solicitor General on another issue, *see* p. 3, *infra*, makes the same point about the practical effect of the decision in this case:

> [T]he new rule puts all non-exclusive licensees at substantial risk, disturbs settled expectations, devalues non-exclusive licenses as compared to transfers and exclusive licenses (thereby discouraging broader dissemination of technology), and provides a disincentive for firms to take non-exclusive licenses from emerging businesses, thereby promoting industrial concentration. From an economic standpoint, there is little doubt that the discarded rule is the better choice.

Jay Dratler, Jr., LICENSING OF INTELLECTUAL PROPERTY § 8.02[1], at 8-8.4 (2002) ("Dratler").

These problems were created by the Federal Circuit, not Congress. The Solicitor General concedes that the Federal Circuit erred in relying on 35 U.S.C. § 261. He recognizes that § 261 "is a recording statute that concerns the distinct problem of *inconsistent* assignments," U.S. Br. at 11 (emphasis in original), not the problem of a defect in the chain of rights.[1] The Solicitor General also confirms that there is no other foundation in federal law for the title-only BFP rule that has now emerged as the "law of the Federal Circuit."

The most that the Solicitor General can say is that the title-only rule created by the court of appeals "accords with

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[1] It is surprising that the Solicitor General suggests that copyright law supports the decision below. The line of cases cited by the Solicitor General, U.S. Br. 13 n.2, was also relied on by respondent in the court of appeals and was understandably ignored by that court when Monsanto explained that those cases all involve defendants acting beyond or without licensing authority. There is no such scope-of-license issue in this case. The Solicitor General has not attempted to answer Monsanto's argument that the explicit recognition of a BFP defense for copyright licensees in 17 U.S.C. § 205 supports a BFP defense for patent licensees.

the traditional common law rule," U.S. Br. 12, citing an ancient real property case, *Villa v. Rodriguez*, 79 U.S. (12 Wall.) 323, 338 (1870), and referring to similar cases relied upon by the court of appeals, Pet. App. 10a-11a. But cases like *Villa* cannot be the foundation for modern federal law governing patent licensing: First, it was decided long before *Erie R. Co. v. Tompkins*, 304 U.S. 64 (1938). Second, the Solicitor General recognizes that, under § 261, "patents shall have the attributes of personal property," U.S. Br. 2; the UCC offers a much closer analogy for personal property than real property common law.

Bereft of statutory, policy or federal common law support for the decision below, the Solicitor General's conclusion that "the decision below appears to be correct," *id.* at 2, is clearly incorrect.

The Solicitor General argues that in any event the decision below does not deserve this Court's attention. His main argument rests on a quotation from Dratler, at 8-8.2: "[N]ow most well-drafted licenses, whether or not exclusive, contain warranties of authority to license, and many indemnify the licensee against losses from breach of that warranty." U.S. Br. 15. But he omits the commentary that immediately follows this proposition:

> Do these common contractual provisions appreciably change the picture? Not really. Until the warrantor or an indemnitor pays up, a warranty or indemnity is only a license to sue. Collecting may take years, and the loss of the time value of money, as well as the expense of litigation, considerably reduces the benefit of any warranty or indemnity . . . . More importantly, a warranty or indemnification is only as good as the firm that makes it.

Dratler, at 8-8.2.

The Solicitor General's other argument is that this is the only adjudicated case where the BFP issue was decided in a patent licensing case. U.S. Br. 8. (Of course, the issue was raised in *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998), just three years earlier.) Moreover, the Solicitor General agrees that *Heidelberg* "is consistent with" Monsanto's argument that "the question did not arise in other cases because the availability of the [BFP] defense in the patent licensing context was generally assumed . . . ."[2] *Id.* at 15-16.[3]

The Solicitor General offers the familiar assurance that "if experience confirms [Monsanto's] predictions, Congress may well be persuaded to clarify the law." U.S. Br. 16. But the damage to the law was caused when the Federal Circuit created federal common law that has no grounding in congressional actions or other expressions of federal policy. While Congress *can* rectify such a mistake, it is quite different than correcting a court's construction of an ambiguous federal statute or regulation. And any such Congressional correction would come too late not only for the present case, but also for firms now negotiating patent

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[2] The Solicitor General states that "the United States' own experience indicates that the question [of whether the BFP rule applies to patent licensing] does not arise with any frequency." U.S. Br. 14. But this is neither surprising nor relevant. The United States has the right to take a license in any patent and pay "reasonable compensation," *see* 28 U.S.C. § 1498, *Richmond Screw Anchor v. United States*, 275 U.S. 331 (1928). There is nothing to be gained by alleging a defect in the chain of licensing against the United States because a plaintiff cannot get higher compensation by threatening an injunction.

[3] The Solicitor General's further observation that "parties do not voluntarily relinquish . . . [the] right to control the licensing of [a] patent, in the absence of controlling law directly on point," U.S. Br. 16, has no application here. Where a sublicensee, like Monsanto, asserts a BFP defense, it must first establish, as Monsanto did, that the patentholder *did* relinquish control over sublicensing when it agreed to the prime license.

rights in the face of this decision, as well as for existing licensees.

The Solicitor General's alternative suggestion that this Court can consider the question "if and when its practical importance is demonstrated," *id.*, similarly ignores the practical fact that firms intending to build businesses on rights to use the patents of others simply must have protection that the Federal Circuit has now made it very difficult to obtain.[4]

CONCLUSION

For the reasons stated above and in Monsanto's earlier filings, the petition should be granted.

Respectfully submitted,

SETH P. WAXMAN
WILMER, CUTLER & PICKERING
2445 M Street, N.W.
Washington, D.C. 20037
(202) 663-6000

E. EDWARD BRUCE
Counsel of Record
ELIZABETH STOTLAND WEISWASSER
PAUL W. SCHMIDT
COVINGTON & BURLING
1201 Pennsylvania Ave., NW
Washington, DC 20004-2401
(202) 662-6000

Attorneys for Petitioner

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[4] The Solicitor General's attempt to depict this case as "atypical" is unpersuasive. U.S. Br. 16 n.5. Monsanto had no role in or awareness of DeKalb's fraud, *see Rhône-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 272 F.3d 1335 (Fed. Cir. 2001), *vacated and remanded on other grounds*, 123 S. Ct. 1828 (2003). The suggestion that Monsanto is a "more suitable candidate than the usual innocent purchaser" for bearing any losses caused by DeKalb resurrects an argument that the Federal Circuit rejected. *See* Monsanto Reply 1 n.1.